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PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF
SOUTHWESTERN ELECTRIC POWER COMPANY
FOR AUTHORITY TO CHANGE RATES

REBUTTAL TESTIMONY OF
MICHAEL A. BAIRD
FOR
SOUTHWESTERN ELECTRIC POWER COMPANY

APRIL 23, 2021

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EXHIBITS

EXHIBIT MAB – 1R	SWEPCO and Other Party Comparison Summary
EXHIBIT MAB – 2R	Revised Exhibit MAB-4 Income Tax Dolet Hills Rebuttal
EXHIBIT MAB – 3R	WP A-3.11 and CARD 4-41 Attachment 1
EXHIBIT MAB – 4R	Corrected M. Garrett Exhibit MG-2.6 OPEB Adjustment

1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

3 A. My name is Michael A. Baird and I am the Managing Director of Accounting Policy
4 and Research for American Electric Power Service Corporation (AEPSC), a subsidiary
5 of American Electric Power Company, Inc. (AEP). My business address is 1 Riverside
6 Plaza, Columbus, Ohio 43215.

7 Q. DID YOU FILE DIRECT TESTIMONY IN THIS CASE?

8 A. Yes.

9 II. PURPOSE OF REBUTTAL TESTIMONY

10 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

11 A. The purpose of my rebuttal testimony is to respond to certain positions taken by Ruth
12 Stark on behalf of the Rates Regulation Division (Staff) of the Public Utility
13 Commission of Texas (PUC or Commission), Mark E. Garrett, Karl J. Nalepa and Scott
14 Norwood on behalf of Cities Advocating Reasonable Deregulation (CARD), Billie S.
15 LaConte on behalf of Texas Industrial Energy Consumers (TIEC), Constance T.
16 Cannady and Tony M. Georgis on behalf of Office of Public Utility Counsel (OPUC)
17 and Steven D. Hunt on behalf of East Texas Electric Cooperative, Inc. and Northeast
18 Texas Electric Cooperative, Inc. (ETEC & NTEC).

19 Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

20 A. My testimony summarizes the various parties' recommendations. I rebut the various
21 parties' objections to the proposed rate treatment for the Dolet Hills Power Plant and
22 Excess Accumulated Deferred Federal Income Taxes (EADFIT) and support

1 SWEPCO's proposed rate treatment. I also address various proposed rate base and cost
2 of service adjustments of these parties.

3 Q. PLEASE PROVIDE A SUMMARY OF THE IMPACT OF THE VARIOUS
4 PARTIES' RECOMMENDATIONS IN THIS PROCEEDING.

5 A. A summary that provides a reasonable estimate of the various parties'
6 recommendations on a Texas Retail basis is provided as EXHIBIT MAB-1R. This
7 summary starts with the Company's requested base rate increase and details the impact
8 of each of the parties' recommendations as well as the Company rebuttal adjustments
9 and lists the Company rebuttal witness(es) addressing that issue. The bottom of the
10 exhibit summarizes the recommended Texas Retail base rate change should the
11 Commission adopt all of that party's respective adjustments. Please note that the
12 individual amounts on this exhibit may differ slightly from those presented in various
13 witness testimonies and exhibits but overall, reflects a reasonably quantified estimate
14 of the issues on a Texas Retail basis that the Commission is facing. For example, my
15 exhibit or other party quantifications may not consider the additional related impact an
16 individual recommendation has on cash working capital.

17 Q. HOW DOES YOUR OVERALL TEXAS RETAIL QUANTIFICATION OF THE
18 VARIOUS PARTIES' RECOMMENDATIONS COMPARE TO THE RESULTS
19 PRESENTED IN THE TESTIMONIES OF WITNESSES THAT PROVIDED A
20 TOTAL TEXAS RETAIL IMPACT?

21 A. My quantifications are similar to Staff and to OPUC. There are minor differences that
22 could easily be attributable to rounding or minor allocation factor differences.
23 However, my quantification of CARD's recommendations is significantly different

1 where I show on EXHIBIT MAB-1R a net Texas Retail increase of approximately \$38
2 million whereas Mr. Nalepa states the increase on a Texas Retail basis is approximately
3 \$20 million (page 5, line 10), a difference of \$18 million.

4 Q. WHY IS THERE SUCH A SIGNIFICANT DIFFERENCE BETWEEN THE TEXAS
5 RETAIL AMOUNTS IN YOUR EXHIBIT MAB-1R AND THE TEXAS RETAIL
6 AMOUNT STATED IN CARD'S TESTIMONY?

7 A. There are errors in CARD's methodology used to allocate the amounts to SWEPCO's
8 Texas Retail jurisdiction that understate CARD's proposed Texas Retail revenue
9 increase.

10 Q. HOW DID CARD DETERMINE THE TEXAS RETAIL PORTION OF THEIR
11 RECOMMENDATIONS?

12 A. Mr. Nalepa estimated the Texas Retail impact of the CARD adjustments in Figure 1 on
13 page 4 of his direct testimony. However, Mr. Nalepa did not utilize these Texas retail
14 amounts when determining the net Texas Retail revenue deficiency. Instead, as noted
15 in footnote 2 of his direct testimony, Mr. Nalepa utilized the Texas Retail percentage
16 of the Company's requested total company revenue deficiency which was 45.98%.

17 Q. WHAT IS THE CORRECT WAY FOR CARD TO ESTIMATE THEIR
18 RECOMMENDED NET REVENUE DEFICIENCY?

19 A. The correct way is to simply take the Company's net Texas Retail revenue deficiency
20 of \$90 million and subtract CARD's more accurate Texas Retail amounts presented in
21 Mr. Nalepa's Figure 1, which total \$49 million. Doing this would have resulted in Mr.
22 Nalepa stating that CARD's estimated Texas Retail revenue deficiency was \$41 million
23 instead of the incorrect \$20 million. I do not believe Mr. Nalepa's amounts include the

1 attendant impact of income taxes on CARD's rate base adjustment, which explains the
2 \$3 million difference between my \$38 million and the \$41 million.

3 Q. WHY IS IT NOT APPROPRIATE TO USE THE REVENUE DEFICIENCY
4 PERCENTAGE THAT MR. NALEPA USED?

5 A. SWEPCO's Texas retail operations are approximately 37.5% of total company,
6 considerably less than the revenue deficiency 45.98% used by Mr. Nalepa. By applying
7 the inappropriate higher percentage, Mr. Nalepa overstates CARD's adjustments and
8 understates CARD's recommended Texas Retail revenue deficiency. A simple
9 example highlights his error. Assume that SWEPCO's other jurisdictions do not have
10 a deficiency and thus the Texas Retail percentage of the total company deficiency is
11 100%. Under Mr. Nalepa's methodology, all reductions would be assigned 100% to
12 Texas Retail. Conversely, if SWEPCO's Texas retail revenue deficiency percentage
13 was 0%, then Mr. Nalepa's methodology would assign 0% to Texas retail. These
14 examples illustrate that the revenue deficiency percentage is incorrect because the same
15 cost disallowance could result in a 100% or 0% allocation, which is illogical.
16 Ultimately, as I explain below, the correct Texas retail revenue deficiency will be
17 determined by running the Commission's final decisions in the case through accepted
18 revenue requirement and cost of service models. In the meantime, however, a better
19 way to get a reasonable estimate would be to use CARD's estimated Texas Retail
20 amounts as described above, which result in an estimated \$41 million Texas Retail
21 revenue deficiency. As I note above, I estimate CARD's Texas Retail revenue
22 deficiency to be approximately \$38 million. The reason I have a lower number, is that
23 I do not believe that Mr. Nalepa's Figure 1 accounts for income taxes associated with

their recommended rate base adjustments along with minor allocation and rounding differences.

In the end, final “compliance” total company, jurisdictional and class cost of service studies that properly reflect the Commission’s final decisions will need to be completed. These final “compliance” studies are standard Commission practice in rate cases and they synchronize all impacts of the case (e.g., taxes, cash working capital, and factoring...) and properly post all adjustments to the appropriate Federal Energy Regulatory Commission (FERC) accounts.

III. DOLET HILLS POWER PLANT AND EXCESS ACCUMULATED DEFERRED FEDERAL INCOME TAXES (EADFIT)

Q. HAVE YOU UPDATED EXHIBIT MAB-4 INCOME TAX AND DOLET HILLS
FILED IN YOUR DIRECT TESTIMONY?

A. Yes, see Exhibit MAB-2R, which provides the revised EADFIT off-set amount and related calculations to determine the remaining net book value of the Dolet Hills Power Station. The only revision to the original Exhibit MAB-4 relates to updated unprotected and protected excess deferred income taxes for the Texas jurisdiction provided by SWEPCO witness David A. Hodgson. See Mr. Hodgson's Exhibits DAH-1R, DAH-2R and DAH-3R.

Q. DID THE REVISION CHANGE THE REMAINING NET BOOK VALUE OF THE DOLET HILLS POWER STATION AND THE PROPOSED ANNUAL AMORTIZATION EXPENSE?

1 A. Yes. As detailed on Exhibit MAB-2R, the revised remaining net book value of Dolet
2 Hills Power Station is \$11.5 million total company or \$6.4 million Texas. The revised
3 annual amortization expense is \$1.6 million. I have also reflected the revisions to rate
4 base and amortization expense on Exhibit MAB-1R in the Company Rebuttal column.

5 Q. WHAT IS DRIVING RECOMMENDATIONS BY VARIOUS PARTIES
6 REGARDING THE DOLET HILLS POWER PLANT?

7 A. First, SWEPCO plans to retire the Dolet Hills Power Plant no later than December 31,
8 2021. This means that the Dolet Hills Power Plant will be providing service at the
9 beginning of the rate year when new base rates are effective in this case, which is March
10 18, 2021 (Docket No. 51415 SOAH Order No. 2) but will be retired before base rates
11 in a subsequent case will become effective. In addition, as discussed in my Direct
12 Testimony, SWEPCO requests that certain EADFIT related to the Tax Cuts and Jobs
13 Act of 2017 (TCJA) be used to off-set the net book value of the Dolet Hills Power
14 Plant. SWEPCO proposes to recover the remaining net book value over a four-year
15 time period (required maximum time period between base rate cases under the PUC's
16 jurisdiction). The impact of SWEPCO's request is that customers see a benefit because
17 the amount of the Dolet Hills Power Plant included in rate base is reduced (a point that
18 all parties ignore in their Direct Testimony), while at the same time, the Company
19 receives immediate recovery of a portion of the Dolet Hills Power Plant (a point
20 mentioned by various parties). To me this is a win-win for customers and SWEPCO.

21 Q. HAS THE COMMISSION ALLOWED OFFSETTING AN ASSET WITH TCJA
22 RELATED EADFIT, THUS REDUCING THE AMOUNT OF ASSET COST FOR
23 CUSTOMERS?

1 A. Yes, it has, as it relates to storm restoration regulatory assets. In AEP Texas Inc. (AEP
2 Texas) Docket No. 48577, the signatories agreed to off-set AEP Texas' catastrophe
3 reserve regulatory assets with unprotected excess ADFIT (Finding of Fact Nos. 51 and
4 52). In Finding of Fact No. 54, the Commission found that, "The Settlement
5 Agreement's treatment of ADFIT is appropriate." While the assets might be different,
6 it is obvious that the Commission is open to using EADFIT as a means to reduce the
7 cost of an asset that ultimately is included in customer rates.

8 Q. DO THE COMMISSION'S RULES PROVIDE DIRECTION ON WHEN AN ASSET
9 IS REMOVED FROM RATE BASE?

10 A. Yes, they do. 16 Texas Administrative Code (TAC) § 25.231(c)(2)(F)(iii)(II) states
11 that post-test year adjustments for known and measurable rate base decreases to
12 historical test year data will be allowed for, "Plant that has been removed from service,
13 mothballed, sold, or removed from the electric utility's books prior to the rate year."
14 The Commission's rules are clear that plant that is in service at the beginning of the
15 rate year will be included in rate base and thus receive a full return. Consistent with
16 that rule one would expect a full level of attendant costs to be included in expenses
17 (i.e., it makes sense that rates will reflect the cost of operating a capital investment that
18 is included in rate base so a utility has the opportunity to earn a reasonable return on its
19 investment over and above those expenses). Prior to the rate year, the Dolet Hills
20 Power Plant has not been removed from service, mothballed, sold or removed from
21 SWEPCO's books. Right now, we are in the rate year and the Dolet Hills Power Plant
22 is in service. Thus, the Commission should reject the parties' recommendations to

1 make various adjustments related to the Dolet Hills Power Plant and associated costs
2 as not complying with the PUC Substantive Rules.

3 Q. IF THE COMMISSION WERE TO ACCEPT THESE RECOMMENDATIONS,
4 WOULD YOU AGREE WITH THE PARTIES' RECOMMENDED RECOVERY
5 PERIOD FOR THE REMAINING UNRECOVERED BOOK VALUE OF DOLET
6 HILLS OF \$123 MILLION?

7 A No, I would not. If the parties' recommendations were accepted, the Commission
8 should allow SWEPCO to recover the \$123 million over a period of less than one year.
9 This would be consistent with GAAP. As noted in Accounting Standards Codification
10 ("ASC") paragraph 360-10-35-3, which states

11 "Depreciation expense in financial statements for an asset shall be
12 determined based on the asset's useful life," and ASC 360-10-35-4,
13 which states "...GAAP requires that this cost be spread over the
14 expected useful life of the facility in such a way as to allocate it as
15 equitably as possible to the periods during which services are obtained
16 from the use of the facility....",

17 SWEPCO should fully depreciate the Dolet Hills book value by the end of 2021. This
18 would allow SWEPCO to earn a full return on (a return on and a return of) its
19 investment in the Dolet Hills Power Plant coinciding with the closure of the plant. That

1 is, current customers, not future customers, pay for the remaining value of the plant
2 while the plant is providing service to the customer.

3 Q IF THE COMMISSION WERE TO ACCEPT THESE RECOMMENDATIONS,
4 WOULD IT BE APPROPRIATE TO EXAMINE THE PERIOD FOR DOLET HILLS
5 POWER PLANT ONLY?

6 A. No, it would not. If the Commission is going to look beyond the beginning of the rate
7 year and effectively remove Dolet Hills from rate base, then the Commission should
8 recognize changed circumstances at other SWEPCO power plants. Since the filing of
9 this case, SWEPCO has announced that Welsh Units 1&3 will no longer burn coal after
10 2028 and thus, most likely will retire in 2028. In addition, the Pirkey Power Plant will
11 retire in March 2023. The Commission should update depreciation rates accordingly
12 and match depreciation expense for these plants to their now-expected lives if the
13 Commission is to look beyond the rate year to remove the Dolet Hills Power Plant from
14 rate base.

15 Q. WHAT ARE THE DIFFERENT RECOMMENDATIONS REGARDING DOLET
16 HILLS RATE RECOVERY?

17 A. PUC Staff witness Stark recommends that the Company's proposed EADFIT off-set
18 be rejected by the PUC and that the Commission determine a revenue requirement
19 excluding depreciation associated with the remaining life of the Dolet Hills Power Plant
20 or about nine and one-half months (March 18, 2021 – December 31, 2021) and amortize
21 that value over four years. Effectively Ms. Stark is recommending that SWEPCO defer
22 the Dolet Hills Power Plant revenue requirement in 2021 into a regulatory asset and
23 amortize the regulatory asset over four years beginning on March 18, 2021 without any

1 return on the regulatory asset while the plant is still in-service. Regarding the
2 applicable EADFIT, Ms. Stark recommends that 1) EADFIT be used to off-set any
3 surcharge from the relate back date (March 18, 2021) until the date new base rates are
4 implemented in this case and 2) any remaining amount be refunded to customers over
5 six months. Regarding the remaining Dolet Hills investment, Ms. Stark also removes
6 SWEPCO's requested net book value associated with Dolet Hills and the Oxbow mine
7 investment from rate base. She proposes to allow SWEPCO recovery of but excludes
8 a return on the remaining net book balance of SWEPCO's Dolet Hills investment at
9 December 31, 2021 over the projected remaining life for the plant from Docket No.
10 46449, which was 2046. If the Commission agrees with Ms. Stark's recommendation,
11 this would cause SWEPCO to write-off a portion of its investment in the Dolet Hills
12 Power Plant under GAAP.

13 CARD witness M. Garrett recommends that the Company's proposed EADFIT
14 off set be rejected and that the Dolet Hills Power Plant not be depreciated over its
15 current useful life but instead continue to be depreciated using the currently approved
16 depreciation rates while the EADFIT be refunded to customers over a four-year period
17 (page 12, lines 7 – 14) via lower base rates. Mr. M. Garrett further recommends that
18 the Commission order the establishment of a regulatory liability to accumulate the
19 return on the remaining balance of the Dolet Hills Power Plant at the time of retirement
20 along with O&M costs (page 13, line 22 - page 14, line 2 and page 14, lines 24-26).

21 CARD witness Norwood recommends that the Dolet Hills Power Plant
22 operation and maintenance expense (O&M) be adjusted to include only two months of
23 O&M, a reduction of \$10.4 million (page 3, lines 7 – 17). Mr. Norwood also

1 recommends the Commission entirely disallow the Dolet Hills Power Plant lignite fuel
2 inventory because the plant will not require any fuel inventory (page 4, lines 8 – 11).

3 ETEC & NTEC witness Hunt recommends that the Company's proposed
4 EADFIT off-set be rejected and refunded over a four-year period as a stand-alone rate
5 matter which I interpret to be a rider with carrying costs. He recommends SWEPCO
6 recover the Dolet Hills Power plant remaining net book balance at December 31, 2021
7 over the remaining life of the composite group of coal and lignite plant assets (page 5,
8 lines 13 – 22). He also recommends a regulatory liability be created to include the
9 Dolet Hills operating costs recovered after the plant is retired (page 5, lines 22 – 27).

10 OPUC witness Cannady recommends that the Company's proposed EADFIT
11 off-set be rejected and that the protected amount (covers January 2018 – March 18,
12 2021) be refunded through a one-time refund and unprotected EADFIT be refunded
13 over two years (both via a rider). The unprotected refund would include carrying
14 charges at the final approved weighted average cost of capital (WACC) (page 8, lines
15 7 - 14). Ms. Cannady also recommends that rate recovery for the asset and O&M costs
16 associated with the Dolet Hills Power Plant be accomplished through a separate rider
17 that would end when the plant retires (page 11, lines 10 – 18). Finally, she recommends
18 that the remaining net book value of the Dolet Hills Power Plant be recovered over 25
19 years in base rates (page 12, lines 11 – 14) without a return, which would also require
20 a write-off, as discussed above.

21 TIEC witness LaConte recommends that the Company's proposed EADFIT
22 off-set be rejected and refunded to customers in one year including carrying costs since
23 January 2018 (page 3, lines 19 – 23). She also states that rates should be either based

1 on the assumption that (1) Dolet Hills Power Plant is operational, used, and useful or
2 (2) Dolet Hills Power Plant has been retired and is no longer used and useful (page 3,
3 lines 29 – 32). If the plant is operational, it should follow the Welsh Unit 2 treatment
4 in Docket No. 40443. If the plant is retired, it should follow the Welsh Unit 2 treatment
5 in Docket No. 46449 (i.e. no return on the remaining balance). In either case,
6 depreciation should be based on the previously approved useful life of the plant – 2046
7 (page 3, lines 1 – 12).

8 Q. DO YOU BELIEVE THE COMPANY’S PROPOSAL TO OFF-SET DOLET HILLS
9 COSTS WITH EADFIT SHOULD BE REJECTED AS RECOMMENDED BY THE
10 VARIOUS PARTIES?

11 A. No, I do not. The creation of EADFIT by the TCJA provides the Commission with a
12 unique opportunity to provide a benefit to customers and the Company by using the
13 applicable EADFIT as an off-set to the net book value of a retiring power plant (Dolet
14 Hills). As noted above, the Commission recognized that such an off-set can be
15 appropriate in Docket No. 48577. In this case and Docket No. 48577, this off set will
16 lower the amount of invested capital recoverable from customers in the future.

17 Q. DO YOU AGREE WITH THE PARTIES’ PROPOSAL TO CONTINUE
18 AMORTIZING DOLET HILLS ASSET COSTS OVER THE PREVIOUSLY
19 ANTICIPATED RETIREMENT DATE OF 2046 OR USE THE PREVIOUSLY
20 APPROVED DEPRECIATION RATES?

21 A. No, I do not. Given the change in circumstances with Dolet Hills retiring by the end
22 of 2021, the Company determined that recovery over the remaining life was not
23 feasible, as it would have required a significant increase in revenue requirements due

1 to the very large depreciation expense. Under the Company's EADFIT off-set
2 proposal, the Company reduced the amount of the Dolet Hills Power Plant investment
3 included in rate base and the amount to be recovered by 91%. Thus, it is reasonable to
4 reduce the recovery period substantially, too. The Company chose four years as non-
5 ERCOT utilities in Texas are generally required to file a base rate case every four years.
6 Thus, the Company believes its proposed amortization period is reasonable. In
7 addition, choosing a longer period as recommended by the parties simply pushes
8 depreciation costs to future customers. The Company's proposed recovery method and
9 period provides a reasonable balance given today's circumstances.

10 Q. DO YOU AGREE WITH MS. STARK'S RECOMMENDATION TO REMOVE THE
11 DOLET HILLS POWER PLANT FROM SWEPCO'S RATE BASE IN THIS CASE?

12 A. No, I do not. First and foremost, Ms. Stark's recommendation does not comply with
13 TAC § 25.231(c)(2)(F)(iii)(II). This rule is specific that to remove plant from rate base
14 it has to be have been removed from service, mothballed, sold, or removed from the
15 electric utility's books prior to the rate year. The Dolet Hills Power Plant has not been
16 removed from service, has not been mothballed, has not been sold and has not been
17 removed from SWEPCO's books prior to the rate year. Thus, the Commission should
18 reject Ms. Stark's recommendation to remove the Dolet Hills Power Plant from rate
19 base because it does not comply with the Commission's rules.

20 Q. DO YOU VIEW SWEPCO'S REQUEST AS RECOVERING AMOUNTS FROM
21 CUSTOMERS FOR A PLANT THAT WILL NOT PROVIDE SERVICE TO THEM
22 FOR THE MAJORITY OF THAT TIME PERIOD AS STATED BY MS. STARK?

1 A. No, I do not. I view it that SWEPCO did not recover enough from previous customers
2 and SWEPCO has provided a reasonable proposal to address this. A very reasonable
3 way to address this is to off-set the resulting higher undepreciated value of the Dolet
4 Hills plant with the excess amount paid by previous customers for income taxes
5 (EADFIT).

6 Q. DO YOU AGREE WITH MS. STARK'S STATEMENT THAT THE FUEL
7 SAVINGS ARE NOT INCLUDED IN THIS BASE RATE CASE?

8 A. Yes, I do as fuel is not a base rate cost. Instead, fuel savings flow through the fuel
9 factor and will be incorporated into SWEPCO's future fuel reconciliation cases after
10 the Dolet Hills Power Plant is retired.

11 Q. DO YOU AGREE WITH MR. M. GARRETT'S STATEMENT THAT SWEPCO'S
12 PROPOSAL SHIFTS OR TRANSFERS BENEFITS OF EADFIT FROM
13 RATEPAYERS TO SHAREHOLDERS?

14 A. No, I do not. First, SWEPCO's proposal specifically reduces the amount of Dolet Hills
15 Power Plant invested capital included in rate base in this case, which is a direct benefit
16 to customers today. This is something that none of the parties recognize in their Direct
17 Testimony or their quantification of their proposed revenue requirement. Should the
18 Commission decide to Order a refund of the EADFIT, then SWEPCO's Texas Retail
19 rate base will need to be increased by approximately \$39 million.

20 Q. DO YOU BELIEVE THAT MR. M. GARRETT'S REFERENCE TO DOCKET NO.
21 46449 REGARDING SO-CALLED ACCELERATED RECOVERY OF STRANDED
22 COSTS IS APPLICABLE?

1 A. No, I do not. In Docket No. 46449, there was not any EADFIT for the Commission to
2 consider. The creation of EADFIT through the TCJA creates a unique opportunity for
3 the Commission to provide a benefit to customers (lower rate base) and a benefit to the
4 Company with recovery of prudently invested capital, an opportunity similar to that the
5 Commission took in the case of AEP Texas' storm costs in Docket No. 48577.

6 Q. IS MR. GARRETT'S REFERENCE TO OTHER AEP RETIRED COAL UNITS IN
7 TABLE 2 OR THE PUBLIC SERVICE COMPANY OF OKLAHOMA (PSO) 2015
8 RATE CASE APPLICABLE?

9 A. No, they are not. The plants referenced in Table 2 were retired in 2015 and the
10 amortization periods were approved before the TCJA. Thus, there was not any TCJA
11 related EADFIT available at the time these plants were retired or when the Commission
12 issued its decision. The PSO 2015 base rate case concluded long before the TCJA was
13 signed into law.

14 Q. ARE YOU AWARE OF ANY NON-TEXAS COMMISSION DECISION RELATED
15 TO AN AEP COMPANY WHERE EADFIT WAS USED TO OFF-SET AN ASSET?

16 A. Yes, I am. In General Order No. 236.1, dated November 16, 2018 in the Matter of the
17 Effects on Utilities of the 2017 TCJA, the Public Service Commission of West Virginia
18 ordered Appalachian Power Company to offset various regulatory assets relating to an
19 Expanded Net Energy Cost under-recovery, Vegetation Management, Storm Costs and
20 other items with EADFIT.

21 Q. IS MR. M. GARRETT CORRECT THAT GAAP DOES NOT SUPPORT THE
22 COMPANY'S PROPOSED TREATMENT OF DEPRECIATION?

1 A. No, Mr. M. Garrett is incorrect. For SWEPCO's GAAP books and for what is reported
2 to the financial community in its Securities and Exchange Commission (SEC) financial
3 statements (10Ks and 10Qs), SWEPCO is depreciating the Dolet Hills Power Plant
4 utilizing a 2021 retirement date. SWEPCO's depreciation of Dolet Hills Plant is
5 consistent with GAAP ASC paragraph 360-10-35-3, which states "Depreciation
6 expense in financial statements for an asset shall be determined based on the asset's
7 useful life," and ASC 360-10-35-4, which states "...GAAP requires that this cost be
8 spread over the expected useful life of the facility in such a way as to allocate it as
9 equitably as possible to the periods during which services are obtained from the use of
10 the facility....". SWEPCO defers this increased depreciation into a regulatory asset,
11 which is consistent with ASC 980-340-25-1. Thus, Mr. M. Garrett is incorrect when he
12 states GAAP does not support the Company's proposed treatment of increased
13 depreciation of an earlier than anticipated plant retirement (page 10 lines 14-16).

14 Q. DO YOU AGREE WITH MR. M. GARRETT'S RECOMMENDATION THAT THE
15 COMMISSION SHOULD REQUIRE SWEPCO TO CREATE A REGULATORY
16 LIABILITY TO ACCUMULATE THE RETURN ON DOLET HILLS STARTING
17 AT THE TIME THE PLANT IS RETIRED FOR YEARS 2022 THROUGH THE
18 COMPANY'S NEXT BASE RATE CASE?

19 A. No, I do not for four specific reasons. First, as discussed above, this recommendation
20 does not comply with the Commission's Substantive Rules regarding post-test year
21 adjustments.

1 Second, I am not aware of the Commission ever ordering such a regulatory
2 liability be created, probably because it has rules on post-test year adjustments that
3 address this situation.

4 Third, retirement of utility plant between rate cases is standard practice as is
5 additions of new utility plant. If it is proper to order such a regulatory liability for
6 retiring plant, then it would be proper to order the creation of a regulatory asset to
7 accumulate the return of assets not included in rate base to ensure that customers are
8 paying a return on plant that is used and useful, just as Mr. M. Garrett is trying to ensure
9 customers are not paying a return on plant that is not used and useful since it has retired.
10 Since the end of the test year (March 31, 2020), SWEPCO gross plant has increased by
11 \$214 million while its net plant has increased by \$74 million through February 2021
12 and by \$244 million and \$88 million through March 2021, respectively. The
13 Company's proposed net book value of the Dolet Hills Power Plant is \$11.5 million or
14 \$123 million before the EADFIT off-set. Thus, since the end of the test year,
15 SWEPCO's net plant increase, which is not included in rate base in this case, is greater
16 than the \$11.5 million included in the company's rate base request for Dolet Hills
17 Power Plant.

18 The reality is, in Texas regulation, there is lag between rate cases. If the lag
19 goes in the Company's favor that will show up in the annual Earning Monitoring Report
20 (EMR) via an actual return on equity that is higher than the approved return on equity,
21 then the Commission can call SWEPCO in for a rate case. If the lag goes in the
22 customer's favor, that too will show up in the annual EMR via an actual return on
23 equity that is lower than the approved return on equity. At that time, the Company has

1 the ability to file a base rate case. In the end, Texas regulation has not involved the
2 creation of regulatory liabilities to account for plant retirement regulatory lag nor has
3 it involved the creation of regulatory assets to account for plant addition regulatory lag.
4 Issuing an order requiring the creation of a regulatory liability is one-sided and
5 unnecessary and should be rejected by the Commission, especially when you consider
6 the over \$200 million of plant additions made by SWEPCO since the end of the test
7 year.

8 Fourth, the proper case to look at is not SWEPCO's last base case because in
9 that case Welsh Unit 2 had already been retired before the end of the test year. In this
10 case the Dolet Hills Power Plant is still in service at the end of the test year, when rates
11 are effective in this case (March 18, 2021), and today. If one were to look at Welsh
12 Unit 2 precedent, then the proper case to look at is Docket No. 40443. In that case, as
13 in this case for Dolet Hills, Welsh Unit 2 was operating at the end of the test year, and
14 when rates were effective, but was forecasted to close sooner than previously thought.
15 In that case, the Commission included all costs for Welsh Unit 2.

16 Q. DO YOU AGREE WITH MR. NORWOOD'S RECOMMENDATION TO REMOVE
17 ALL BUT TWO MONTHS OF DOLET HILLS O&M EXPENSES AND REMOVE
18 ITS FUEL INVENTORY FROM RATE BASE?

19 A. No, I do not for the same reasons discussed above regarding the creation of a post-test
20 year regulatory liability, i.e., because his recommendation does not comply with the
21 Commission's post-test year adjustment rule. I am not aware of any Commission ruling
22 to include only a partial year of O&M expenses in rates for plant that is providing
23 service to customers at the effective date of new rates. I am also not aware of any

1 Commission ruling that a plant providing service at the effective date of base rates with
2 fuel inventory on hand not allow the utility to include a reasonable level of fuel
3 inventory in rate base. As of February 2021, and March 2021, respectively, SWEPCO
4 had \$106 million and \$109 million of fuel inventory on its books for the Dolet Hills
5 Power Plant.

6 Q. IF THE COMMISSION WERE TO DISALLOW A PORTION OF THE DOLET
7 HILLS O&M, SHOULD IT BE TWO MONTHS AS RECOMMENDED BY MR.
8 NORWOOD?

9 A. No, it should not. Mr. Norwood does not recognize the effective date of rates in this
10 case, which is March 18, 2021. By including only two months that would get SWEPCO
11 to May 18, 2021, which is before the Dolet Hills Power Plant will retire. If the
12 Commission were to include only a partial year it should cover March 18, 2021 through
13 December 2021 or about nine and one-half months.

14 Q. DO YOU AGREE WITH ETEC & NTEC WITNESS HUNT'S
15 RECOMMENDATION TO CREATE A REGULATORY LIABILITY TO INCLUDE
16 THE DOLET HILLS OPERATING EXPENSES AFTER THE PLANT IS RETIRED?

17 A. No, I do not for the same reasons as discussed above regarding the return on the Dolet
18 Hills Power Plant (asset regulatory liability) recommended by Mr. M. Garrett.

19 Q. DO YOU AGREE WITH ETEC & NTEC WITNESS HUNT'S
20 RECOMMENDATION TO AMORTIZE THE REMAINING BOOK VALUE OF
21 DOLET HILLS OVER THE EXPECTED REMAINING LIFE OF ASSETS IN ITS
22 COMPOSITE DEPRECIATION GROUP OF COAL AND LIGNITE ASSETS?

1 A. If Mr. Hunt's proposal is to include the remaining balance of the Dolet Hills Plant with
2 all other coal and lignite plants, excluding the Turk Plant, and allow SWEPCO to
3 recover a return of and return on its Dolet Hills investment over the composite life of
4 those plants, that may be a reasonable alternative. However, such an approach would
5 require the recalculation of the depreciation rates proposed for the other power plants
6 presented in this case.

7 Q. DO YOU AGREE WITH OPUC WITNESSES CANNADY AND GEORGIS'
8 RECOMMENDATION TO CREATE A SEPARATE RIDER FOR THE RECOVERY
9 OF THE DOLET HILLS POWER PLANT ASSET AND O&M COSTS?

10 A. No, I do not. Similar to the regulatory liability creation recommendations, the
11 Commission's post-test year adjustment Substantive Rules do not contemplate a rider.
12 I am not aware of the Commission ever requiring such a rider for a retiring asset. The
13 Commission did not order such a rider for SWEPCO's Welsh Unit 2 in Docket 40443
14 nor are there any specific Commission rules that would require or authorize such a
15 rider. If one wants to address regulatory lag with a rider for a plant retirement, then the
16 Commission should also establish a rider for regulatory lag associated with plant
17 additions. Instead, as noted earlier, retirements and additions are a normal course of
18 business for which there is regulatory lag, some of which benefits customers (plant
19 additions) and some benefit the Company (plant retirements) and are off-setting. In the
20 end, the Commission monitors utilities' earnings via the annual EMR and may require
21 a rate case if a utility is over-earning. The Commission has not set up interim riders to
22 address plant retirements or off-setting plant additions.

1 Q. MS. CANNADY ALSO REFERENCES THE COMMISSION DECISION IN
2 DOCKET NO. 46449 AND ALLEGES HER RECOMMENDATION IS
3 CONSISTENT WITH THAT DECISION. DO YOU AGREE?

4 A. No, I do not agree. First, the Commission did not order a Welsh Unit 2 rider in that
5 case because Welsh Unit 2 had already been retired. In this case, Dolet Hills is still
6 operating. If the Commission wanted to look at a case filed before Welsh Unit 2 was
7 retired (where Dolet Hills is at today – not retired) it would need to look at the Docket
8 No. 40443 decision. As with Docket No. 46449, the Commission did not order a Welsh
9 Unit 2 rider. And in both of these cases, the Commission did not have EADFIT to
10 consider which is does in this case.

11 Q. DO YOU AGREE WITH MS. STARK AND MS. CANNADY’S
12 RECOMMENDATIONS TO REMOVE THE OXBOW MINE RESERVES FROM
13 RATE BASE (BOTH) AND AMORTIZE THEM IN COST OF SERVICE
14 THROUGH 2046 (CANNADY ONLY)?

15 A. No, I do not. As with the Dolet Hills Power Plant, generally the Oxbow Lignite
16 Company (“OLC”) investment provides benefit through the final operation in 2021 as
17 Dolet Hills Lignite Company (DHLC) delivers already mined lignite to the Dolet Hills
18 Power Plant and SWEPCO burns the lignite to generate electricity. Until this is
19 included in eligible fuel expense, SWEPCO still has an asset that is supported by debt
20 and equity and in compliance with the post-test year Substantive Rules should receive
21 a return on the previously approved asset. Thus, this asset should stay in rate base just
22 like the Dolet Hills Power Plant. As of February 2021, and March 2021, respectively,
23 SWEPCO had \$9.1 million and \$7.3 million in OLC investment on its books, which is

1 the time rates are effective for this case. Should the Commission adopt Ms. Cannady's
2 rider approach, then this investment should be included in the rider same as the Dolet
3 Hills Power Plant.

4 As DHLC mines the lignite reserves, OLC amortizes and bills the reserves to
5 SWEPCO. SWEPCO records the billings as fuel inventory and recovers the cost
6 through eligible fuel expense as the lignite is burned. Thus, Ms. Cannady's
7 recommendation to include in base rates amortization of this asset will result in a
8 double recovery by SWEPCO. The Commission should reject this adjustment to avoid
9 the double recovery and continue to allow recovery through eligible fuel.

10 Q. DO YOU AGREE WITH MS. CANNADY'S RECOMMENDATION TO REMOVE
11 THE DHLC EQUITY AND RELATED TAXES FROM BASE RATES?

12 A. No, I do not. While the mining may have stopped, DHLC will continue to deliver
13 lignite to SWEPCO and, SWEPCO will incur this non-eligible fuel expense when rates
14 are effective in this case. Thus, these expenses should be included in base rates in this
15 case consistent with the Commission's post-test year Substantive Rules. If the
16 Commission approves Ms. Cannady's Dolet Hills Power Plant Rider then these costs
17 should be included in that rider or included as a component of eligible fuel expense to
18 allow SWEPCO recovery of this fuel expense.

19 Q. DO YOU AGREE WITH TIEC WITNESS LACONTE IS RECOMMENDATION TO
20 FOLLOW THE WELSH UNIT 2 DECISION FROM DOCKET NO. 40443 OR
21 DOCKET NO. 46449?

22 A. No, I do not as neither of those Dockets had EADFIT and I believe the Commission
23 should consider SWEPCO's proposed off-set that was not available to the Commission

1 in those proceedings. If the Commission rejects the Company's EADFIT off-set and
2 wants to follow the precedent of one of these cases, then Docket No. 40443 is more
3 applicable as I've noted earlier. The reason Docket no. 40443 is more applicable is
4 that Dolet Hills is still operating, similar to Welsh Unit 2 in Docket No. 40443 rather
5 than Docket No. 46449 where Welsh Unit 2 had already retired before the end of the
6 test year.

7 Q. DO YOU AGREE WITH PUC WITNESS STARK THAT DOCKET NO. 46449 IS
8 THE PROPER CASE TO FOLLOW?

9 A. No, I do not, as noted earlier in this testimony. It is clear from the Commission's rules
10 that plant in service at the beginning of the rate year is not removed from rate base.
11 There are no exceptions to the rule for plant that is retired in the rate year. In other
12 words, following Docket No. 40443 complies with the Commission's rules as they
13 relate to post-test year adjustments for rate base.

14 Q. MS. STARK USES SWEPCO'S SPP DEFERRAL REQUEST IN SUPPORT OF HER
15 ADJUSTMENT. DO YOU AGREE?

16 A. No, I do not. As she notes, SWEPCO's deferral request states that the costs SWEPCO
17 incurs under the SPP OATT will be outdated when the rates established in this
18 proceeding take effect. When the rates take effect in this proceeding, SWEPCO will
19 be incurring a full level of costs for the Dolet Hills Power Plant, including return, O&M
20 & taxes, and as such SWEPCO's requested costs are not outdated. Thus, SPP OATT
21 costs and Dolet Hills Power plant costs will not be in the same position when rates in
22 this case take effect.

1 Q. IF THE COMMISSION ORDERS A REFUND OF THE EADFIT INSTEAD OF
2 SWEPCO'S PROPOSAL TO OFFSET DOLET HILLS POWER PLANT, WHAT DO
3 YOU PROPOSE?

4 A. I propose one of two options. The Commission could adopt Ms. Stark's
5 recommendation to off-set the relate-back date surcharge and then refund any
6 additional amounts through a rider over an applicable refund time period. The two
7 components of the EADFIT are fixed, and not on-going, so they should not be included
8 in base rates. Thus, a separate rider makes more sense, which will allow for an exact
9 refund, including applicable carrying costs. It also allows the Commission the ability
10 to determine a specific refund time period.

11 Q. DO YOU HAVE ANOTHER OBSERVATION REGARDING MS. STARK'S
12 PROPOSAL TO OFFSET THE RELATE BACK AMOUNT WITH EADFIT?

13 A. Yes. Ms. Stark's recommendation recognizes that there is administrative efficiency in
14 offsetting amounts owed to the utility with the EADFIT owed to customers. This is no
15 different from SWEPCO's proposal to offset SWEPCO's capital investment in the
16 Dolet Hills plant with the EADFIT owed to customers. In either case, the proposal is
17 to reduce amounts that customers will owe in the future by the EADFIT owed to
18 customers.

19 Q. IS IT PROPER TO CALCULATE CARRYING COSTS SINCE JANUARY 2018 AS
20 RECOMMENDED BY TIEC WITNESS LACONTE?

21 A. No, it is not because that would result in SWEPCO paying carrying costs twice. The
22 TCJA was rate base neutral and did not create any additional cost-free capital for the
23 Company. For example, assume the Company had \$35 of accumulated deferred

1 income taxes at the old 35% tax rate. That \$35 would be used to reduce rate base
2 effectively resulting in customers receiving carrying costs on that \$35 in the last base
3 rate case. The TCJA is neutral to rate base and simply split the \$35 into two buckets.
4 The first bucket was a new accumulated deferred income tax of \$21 at the new 21%
5 tax rate and a new net regulatory excess amount of \$14. Ms. LaConte is recommending
6 an additional carrying cost on the \$14 which would result in customers receiving a rate
7 base carrying cost credit on \$35 and an excess carrying cost credit on \$14 for a total
8 carrying cost credit on \$49 whereas the Company has only received \$35 of cost-free
9 capital. Because the accumulated deferred income taxes at the higher 35% tax rate
10 reduced rate base in SWEPCO's last base case, an additional carrying cost credit on
11 the excess amounts double counts the excess portion (\$14 in the above example). The
12 Commission should reject Ms. LaConte's recommendation.

13 Q. IF THE COMMISSION DECIDES TO ORDER THAT THE EADFIT BE
14 REFUNDED VIA A RIDER, DO YOU HAVE ANY RECOMMENDATION
15 REGARDING CARRYING COSTS?

16 A. Yes, I do. As noted earlier, customers have received a full carrying cost credit via base
17 rates where accumulated deferred income taxes were based on the old 35% tax rate.
18 The Commission should remove the unrefunded credit balance, used to reduce the
19 amount of Dolet Hills Plant, from the computation of rate base, which would increase
20 Texas jurisdictional rate base by \$39 million (Exhibit MAB-2R). Thus, carrying costs
21 should start accruing with the effective date of base rates in this case, or March 18,
22 2021 and should continue to accrue on the unrefunded balance until fully refunded.

1 The appropriate carrying cost rate is the WACC approved in this case grossed up for
2 federal income taxes.

3 IV. OTHER RATE BASE ADJUSTMENTS

4 Q. DO YOU AGREE WITH PUC STAFF WITNESS STARK'S AND OPUC WITNESS
5 CANNADY'S FINANCIALLY BASED CAPITALIZED INCENTIVE
6 ADJUSTMENT TO RATE BASE OF \$42,039?

7 A. Yes, I do.

8 Q. DO YOU AGREE WITH MS. STARK'S ADJUSTMENT TO REMOVE OVER \$13
9 MILLION RELATED TO THE RETIREMENT OF FIVE OLDER GAS UNITS?

10 A. No, I do not for various reasons. First, SWEPCO has retired various gas units in the
11 past and the Commission has never singled out and addressed retired gas plants this
12 way. These plants have reached the end of their expected useful life, as other units in
13 the past, and it is not unusual that some undepreciated value remains. Second, Ms.
14 Stark's recommendation does not follow the FERC Uniform System of Accounts or
15 standard depreciation practice for these power plants. By this, I mean any under or
16 over depreciated value is included in the determination of future depreciation rates for
17 the remaining units. Finally, Ms. Stark relies on the Welsh Unit 2 decision in Docket
18 No. 46449, which I do not believe is applicable.

19 Q. WHY DO YOU SAY THE WELSH UNIT 2 DECISION IN DOCKET NO. 46449 IS
20 NOT APPLICABLE?

21 A. Welsh Unit 2 was not the first utility asset to be retired with some amount of
22 undepreciated value and not even the first generating unit to be retired with some

1 amount of undepreciated value. Yet, it is my understanding that Docket No. 46449 was
2 the first time that the Commission departed from the prescribed accounting treatment
3 and removed the undepreciated value of a retired generating unit from rate base.
4 Therefore, the circumstances that prevailed in that docket with respect to Welsh Unit 2
5 were unique.

6 Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING THIS
7 RECOMMENDATION?

8 A. Yes, I do. To apply the Docket No. 46449 Welsh Unit 2 rate treatment to the retirement
9 of any generation unit independent of the circumstances provides inappropriate
10 incentives to parties in utility rate cases to recommend that the Commission extend the
11 depreciable lives of generation units in an effort to cause unit retirements with
12 excessive undepreciated value. Utilities should be provided an incentive to make
13 prudent generation unit retirement decisions that are in the best interest of customers
14 without facing penalties when a unit retires with some amount of undepreciated value.

15 Ms. Stark also states, “Lastly, given the recent winter weather event in Texas,
16 there exists the possibility of mandates related to generation, even for non-ERCOT
17 utilities like SWEPCO, from the Texas Legislature, the Federal Energy Commission
18 (FERC), and the North American Electric Reliability Corporation (NERC).” Utilities
19 should be able to make these types of investments confidently without concern they
20 will be left with a future undepreciated value, of which a portion will ultimately be
21 written off to expense.

1 Q. SHOULD CASH WORKING CAPITAL BE UPDATED AND SYNCHRONIZED
2 WITH THE FINAL REVENUE REQUIREMENT IN THIS CASE AS
3 RECOMMENDED BY MS. STARK?

4 A. Yes, it should.

5 V. OTHER COST OF SERVICE ITEMS

6 Q PLEASE EXPLAIN SWEPCO'S PROPOSED INCENTIVE COMPENSATION
7 EXPENSE INCLUDED IN THIS CASE.

8 A. SWEPCO's requested incentive compensation has reduced annual incentive
9 compensation expense to a target level of 1.0 for all employees and further removed the
10 direct financial components of SWEPCO's annual incentive plans and 50% of the non-
11 financial components because of the anticipated financial funding portion of the annual
12 plans for employees not covered under a collective bargaining agreement. Because the
13 test year spanned across two years, the test year costs were separated into fiscal years and
14 the targets and goal ratios applicable to each year were applied to its respective portion.
15 Along with treatment of the annual incentive compensation plans, the Company has
16 removed costs related to performance shares from the long-term incentive plan.

17 Q. WHAT WITNESSES ADDRESS INCENTIVE COMPENSATION EXPENSE?

18 A. Staff witness Ms. Stark, OPUC witness Ms. Cannady, and CARD witness Mr. Mark
19 Garrett address incentive compensation expense.

20 Q. WHAT SWEPCO WITNESSES WILL ADDRESS INCENTIVE COMPENSATION?

21 A. I will address the numbers while SWEPCO witness Andrew R. Carlin will address other
22 aspects of expensed incentive compensation.

1 Q. WILL YOU DISCUSS THE ADJUSTMENT PROPOSED BY STAFF WITNESS MS.
2 STARK?

3 A. Yes, the only adjustment proposed by Ms. Stark relates to an error disclosed by the
4 Company during discovery, reducing SWEPCO's total company expense (\$50,079) and
5 AEPSC annual incentive expense billed to SWEPCO during the test year (\$6,131), total
6 company.

7 Q. DO YOU CONTEST MS. STARK'S PROPOSAL?

8 A. No, I do not.

9 Q. WHAT ADJUSTMENT TO INCENTIVE COMPENSATION EXPENSE DOES MS.
10 CANNADY PROPOSE?

11 A. Ms. Cannady's approach is two pronged. She proposes that incentive compensation
12 related to union employees should not be treated differently from non-union and the goals,
13 targets and funding measure assumptions associated with the 2020 fiscal year portion of
14 test-year incentive expense reaches outside a known and measurable range.

15 Q. DO YOU AGREE WITH MS. CANNADY'S POSITION ON INCENTIVE
16 COMPENSATION FOR EMPLOYEES COVERED UNDER A COLLECTIVE
17 BARGAINING AGREEMENT?

18 A. No, the incentive compensation for employees covered under a collective bargaining
19 agreement are presumed reasonable under Section 14.006 of PURA and as such should
20 be recoverable. See the rebuttal testimony of Mr. Carlin for further discussion of this
21 topic.

1 Q. DO YOU AGREE WITH MS. CANNADY'S POSITION THAT PART OF THE
2 COMPANY'S ADJUSTMENT IS BASED ON INFORMATION THAT IS NOT
3 KNOWN AND MEASURABLE?

4 A. No. The target amounts for each plan, along with the goals and funding measure related
5 to each are developed and approved by the Company's HR Committee of the Board during
6 the first quarter of each year. The goals, target values and funding measure for the 2020
7 annual incentive plans were known and measurable at the end of the test year.

8 Q. PLEASE DISCUSS CARD WITNESS MR. MARK GARRETT'S PROPOSED
9 ADJUSTMENT TO THE COMPANY'S INCENTIVE COMPENSATION REQUEST.

10 A. Mr. M. Garrett's approach is to remove all the costs related to the financially based
11 incentive plan goals along with half of a 100% funding measure.

12 Q. DO YOU AGREE WITH HIS APPROACH?

13 A. No, I do not. Mr. M. Garrett has adopted the Company's proposed process with the
14 exception of the funding measure. As discussed on page 31 of Company witness Mr.
15 Carlin's direct testimony, the funding percentage of 100% adopted by management during
16 2020 was a temporary change made for 2020 only due to the financial volatility and
17 rapidly changing business conditions resulting from COVID-19. Historically the
18 Company's funding measure had been 70% and it has reverted to a balanced scorecard of
19 operating objectives for 2021 as discussed by SWEPCO rebuttal witness Andy Carlin,
20 consistent with the Companies' practice for 2019 and many prior years. The funding
21 measure for 2020 is unusual and not representative of ongoing funding percentages;
22 therefore, it is more appropriate to follow the Company's approach and remove one-half
23 of the 70% funding measure.

1 Q. PLEASE EXPLAIN SWEPCO'S PROPOSED BASE PAYROLL ADJUSTMENT IN
2 THIS CASE.

3 A. SWEPCO's payroll costs were updated using the actual employees on the payroll at
4 the end of the test period March 31, 2020 and their base payroll amounts at that time
5 plus an after the test year pay increase. The pay increase percentages for merit eligible
6 employees discussed in the direct testimony of Mr. Andrew Carlin were comprised of
7 two pieces, the merit portion and a portion for promotions/equity. Likewise, the hourly
8 physical, craft and technical employees increase percentages include both general wage
9 increases along with market adjustments and wage equalization portions. My direct
10 testimony reported that the percentage increase used in the payroll proforma was 3.5%
11 for all employees, but the adjustment included only the merit or general wage increases.
12 Merit eligible employees were adjusted 3.0% and hourly physical and craft employees
13 were adjusted 2.5%, all of which was approved by the compensation committee and
14 implemented by October 2020. (i.e. a known and measurable adjustment under 16
15 Texas Administrative Code (TAC) 25.231(b)).

16 Q. DID ANY PARTY SUGGEST ADJUSTMENTS TO SWEPCO'S PROPOSED
17 PAYROLL?

18 A. Yes. Both OPUC witness Ms. Cannady and Staff witness Ms. Stark propose to increase
19 the Company's request to reflect payroll levels at October 31, 2020. CARD witness
20 Mr. Mark Garrett makes an adjustment decreasing SWEPCO's requested payroll to a
21 level through December 31, 2020.

22 Q. HAS THE COMMISSION RULED ON POST-TEST YEAR PAY INCREASES?

1 A. Yes, it has. In Docket No. 46449, the Commission approved payroll that included
2 annualizing base payroll to the salary rates in effect at the end of the test year (June 30,
3 2016) and recognizing the effect of merit and general increases implemented by April
4 2017. In that case, Finding of Fact 192 stated:

5 "Because these payroll increases were awarded in 2017, they represent
6 appropriate known and measurable changes."
7

8 SWEPCO's calculation in this proceeding matches the adjustment approved in Docket
9 No. 46449, where the Commission stated in Finding of Fact 193:

10 "SWEPCO's calculation in this proceeding matches the adjustment
11 approved in Docket No. 40443, which is to annualize salaries of
12 employees on the payroll at the end of the test year and then apply a
13 known and measurable increase that was awarded post-test year."
14

15 Q. DOES THE APPROACH PROPOSED BY MS. STARK AND MS. CANNADY
16 FOLLOW THE METHODOLOGY APPROVED IN DOCKET 46449?

17 A. Not entirely. It does incorporate payroll increases that are known and measurable at
18 the end of the test year, but it varies in the employee base used. Their calculations
19 annualize salaries of employees on the payroll as of October 31, 2020. While it is
20 normal for a company to experience fluctuations in its employee mix over time, those
21 fluctuations are not known and measurable at the end of the test year and do not follow
22 the Commission precedent.

23 Q. IS THE ADJUSTMENT PROPOSED BY MR. M. GARETT APPROPRIATE?

24 A. No, it is not. As discussed previously, it is normal to experience fluctuations in the
25 employee base of a company over a period of time. The timeframe chosen by Mr. M.

1 Garrett extends to December 31, 2020, and includes changes in the employee base not
2 foreseen at the end on the test year, thereby not known and measurable.

3 Q. ON PAGE 31, LINES 22 THROUGH 25 AND PAGE 32, LINES 1 THROUGH 10,
4 MR. M. GARRETT ASSERTS THAT SWEPCO'S NOMINAL PAY RAISE IS NOT
5 KNOWN AND MEASURABLE BECAUSE OF MANY OTHER FACTORS. DO
6 YOU AGREE?

7 A. No, I do not. All pay increases were approved in February 2020 and implemented in
8 April 2020 for nonunion employees and in September 2020 for hourly and physical
9 craft employees. Thus, consistent with the Commission's decision in Docket No.
10 46449, the pay increase is a known and measurable change.

11 Regarding the other factors surrounding workforce levels, capitalization ratios
12 and productivity gain, I would agree that although they can impact payroll, those factors
13 are not known and measurable and therefore not provided for under 16 TAC 25.231(b).

14 Q. DO YOU AGREE WITH OPUC WITNESS MS. CANNADY'S ADJUSTMENT
15 RELATED TO SEVERANCE COSTS?

16 A. No, I do not. First, Ms. Cannady's adjustment completely removes SWEPCO's
17 directly incurred severance expenses of \$767,074. AEPSC and SWEPCO prudently
18 incur severance costs under a severance program. This program allows management
19 to evaluate operations on a continuing basis to provide the most efficient and effective
20 operations at the lowest cost for customers. SWEPCO directly incurred severance
21 expenses during the test year and should recover more than zero as proposed by Ms.
22 Cannady. Furthermore, she removes AEPSC severance expenses of \$636,631 and
23 allows SWEPCO recovery of \$824,245, which is an average of calendar years 2017,

1 2018 and test year ended March 2020. She likely chose to include the test year AEPSC
2 severance expenses of \$1,460,876 in her average because the test year was significantly
3 less than calendar year 2019 AEPSC severance expenses of \$2,957,553. The average
4 of the three calendar years 2017-2019 is \$1,313,281 which is more consistent with the
5 level included in the test year in this case of \$1,460,876. Overall, SWEPCO and
6 AEPSC test year severance expenses represent a reasonable level of severance
7 expenses to include in cost of service. The Commission should reject Ms. Cannady's
8 proposed adjustment.

9 Q. DID ANY WITNESS ADDRESS PAYROLL RELATED TAX EXPENSE?

10 A. Yes. Ms. Stark (page 53, lines 14 - 17), Mr. M. Garrett (page 32, lines 2 and 3, page
11 19, lines 18 and 19) and Ms. Cannady (page 51, lines 19 – 22, page 52 , lines 1-5)
12 recommend adjustments to payroll tax expense that are associated with their payroll
13 related adjustments such as incentives. In other words, they synchronized their payroll
14 tax expense with their payroll.

15 Q. DO YOU AGREE?

16 A. I agree that the Commission should synchronize payroll tax expense with payroll
17 expense adjustments. The Company does not agree with Ms. Stark's, Mr. M. Garrett's
18 or Ms. Cannady's payroll related expense adjustments as rebutted by Mr. Carlin and
19 myself.

20 Q. DO YOU AGREE WITH PUC WITNESS STARK'S AND CARD WITNESS M.
21 GARRETT'S AEPSC PAYROLL COST ADJUSTMENT?

22 A. No, I do not. The impacts of the retirement incentive offering on AEPSC billings to
23 SWEPCO are not known and measurable. In addition, the level of services provided

1 by AEPSC to SWEPCO could vary throughout the year based on the needs of
2 SWEPCO. Furthermore, payroll or employee counts are not a reliable indicator,
3 whether they result from retirements or otherwise. When vacancies occur, it is common
4 practice to assess alternatives before replacing positions in-kind; in many instances
5 associated reductions in payroll are offset in-part or in whole by increased spending in
6 other cost categories, such as outside services when work is redirected to contingent
7 labor or outsourced. The proposed adjustment relies on speculation about potential
8 future costs that is neither reliable nor consistent with appropriate criteria for
9 establishing AEPSC costs in this proceeding. Because of these variabilities, SWEPCO
10 has always followed the practice of using the test year level of payroll costs, and then
11 adjusting to include the known and measurable merit increases that went into effect on
12 April 1, 2020. The PUC has adopted this standard practice in past cases, as discussed
13 above.

14 Q. DO YOU AGREE WITH PUC STAFF WITNESS STARK'S CAPITAL
15 FINANCIALLY BASED INCENTIVE ADJUSTMENT TO AMORTIZATION
16 EXPENSE?

17 A. Yes, I do.

18 Q. DO YOU CONTEST MS. STARK'S ADJUSTMENT FOR SUPPLEMENTAL
19 EXECUTIVE RETIREMENT PLAN (SERP) EXPENSES?

20 A. No, I do not.

21 Q. DO YOU AGREE WITH PUC STAFF WITNESS STARK'S ADJUSTMENT TO
22 PENSION EXPENSE?

1 A. No, I do not. Ms. Stark utilizes SWEPCO's loading ratio, which is based on estimates,
2 instead of the actual payroll capitalization ratio from the test year. The actual payroll
3 capitalization ratio for the test year is a better ratio and is consistent with how this
4 adjustment has been calculated in past cases, which has not been challenged, probably
5 because it represents an actual test year value.

6 Q. DO YOU CONTEST MS. STARK'S ADJUSTMENT FOR EXECUTIVE
7 PERQUISITES?

8 A. No, I do not.

9 Q. DO YOU CONTEST PUC STAFF STARK'S ADJUSTMENT FOR AFFILIATE
10 CARRYING COSTS?

11 A. No, I do not as it follows past commission precedent.

12 Q. DO YOU AGREE WITH MS. STARK'S ADJUSTMENT TO REGULATORY
13 COMMISSION EXPENSE?

14 A. Yes, I agree with her adjustment.

15 Q. HAS MS. STARK MADE ANY ADJUSTMENTS THAT AFFECT THE
16 FACTORING RATE TO BE APPLIED TO FINAL APPROVED REVENUES?

17 A. Yes, Staff's recommended ROE of 9.3% was included in determining Staff's proposed
18 factoring rate. The final approved ROE amount should be included in the final
19 factoring rate calculation to synchronize factoring expense properly to the approved
20 revenue requirement.

21 Q. DO YOU CONTEST MS. STARK'S INTANGIBLE PLANT AMORTIZATION
22 ADJUSTMENT?

23 A. No, I do not.

1 Q. DO YOU CONTEST PUC WITNESS STARK'S ADJUSTMENT TO UPDATE THE
2 CUSTOMER DEPOSIT INTEREST AMOUNT TO INCORPORATE THE
3 CURRENT COMMISSION APPROVED 2021 INTEREST RATE?

4 A. No, I do not.

5 Q. DO YOU AGREE WITH PUC WITNESS STARK'S ADJUSTMENTS TO
6 DEPRECIATION EXPENSE?

7 A. No, I do not as these relate to her position to remove the Dolet Hills Power Plant and
8 certain older gas units from rate base, with which do not agree. However, if the
9 Commission adopts her position, then I would not contest these depreciation expense
10 synchronization adjustments.

11 Q. DO YOU CONTEST MS. STARK'S RECOMMENDATION TO AMORTIZE THE
12 LOSS FROM DISPOSITION OF UTILITY PLANT OVER FOUR YEARS?

13 A. No, I do not.

14 Q. DO YOU AGREE WITH PUC STARK'S WITNESS RECOMMENDATION TO
15 REDUCE THE COMPANY'S AD VALOREM TAXES?

16 A. No, I do not for several reasons. First, her calculation would result in Texas customers
17 being subsidized by other states because she failed to recognize the Texas jurisdictional
18 adjustments. In past cases, the Company has consistently recognized the Texas
19 jurisdictional adjustments without issue so Ms. Stark's recommendation is not
20 consistent with those past cases. Finally, the Company does not agree with her
21 adjustment to remove various generation assets from rate base.

1 Q. WHY DO YOU DISAGREE WITH HER REMOVAL OF THE JURSDICTIONAL
2 ADJUSTMENTS FROM THE AD VALOREM TAX SYNCHRONIZATION
3 CALCULATION?

4 A. First, her removal results in other states subsidizing Texas customers. As I stated in
5 my direct testimony, SWEPCO is multi-jurisdictional, its books are a hybrid of each
6 state's unique decisions, and for setting Texas rates the books are adjusted to recognize
7 Texas specific decisions. For example, accumulated depreciation is restated to
8 recognize Texas approved depreciation rates. In this case, Texas depreciation rates
9 over time have been lower than the average. Because of this fact, on a Texas basis, the
10 undepreciated value of SWEPCO's assets is higher in Texas than in the other two states.
11 By not recognizing this, Ms. Stark is using the higher depreciation rates from other
12 states to lower Texas ad valorem taxes. In other words, Mr. Stark's recommendation
13 results in SWEPCO's other states subsidizing Texas rates. If Texas had approved
14 higher depreciation rates than the other states, the undepreciated value of SWEPCO's
15 assets would be lower and, therefore, ad valorem taxes would be lower. However, that
16 is not the case at this time.

17 Q. IS MS. STARK'S CALCULATION CONSISTENT WITH HOW DEPRECIATION
18 EXPENSE IS CALCULATED?

19 A. No, it is not. The depreciation expense calculation properly recognizes the Texas
20 jurisdictional adjustments. As with the proper calculation of depreciation expense, the
21 proper calculation of ad valorem taxes expense includes the Texas jurisdictional
22 adjustments as has been done in past cases.

1 Q. DO YOU AGREE WITH PUC STARK'S OTHER AD VALOREM TAX
2 ADJUSTMENTS?

3 A. No, I do not agree with her removal of ad valorem taxes tied to the rate base adjustments
4 for Dolet Hills Power Plant and older gas power plant as I do not agree with these rate
5 base adjustments as discussed earlier. I do agree with her recommended adjustment of
6 (\$42,039) associated with capitalized incentives. I do agree that the Commission
7 should synchronize the final amount of ad valorem taxes with the final level of
8 investment, recognizing Texas jurisdictional adjustments included in rate base using an
9 effective ad valorem tax rate of .00998582.

10 Q. SHOULD THE REVENUE RELATED TAXES AND INCOME TAXES BE
11 UPDATED AND SYNCHRONIZED WITH THE FINAL REVENUE
12 REQUIREMENT IN THIS CASE AS RECOMMENDED BY MS. STARK?

13 A. Yes, they should.

14 Q. DOES ANY WITNESS RECOMMEND AN ADJUSTMENT TO THE COMPANY'S
15 OTHER POST-RETIREMENT EXPENSES?

16 A. Yes, CARD witness M. Garrett adjusts the Company's requested Other Post-
17 Retirement expenses. On page 31, lines 1 – 6, Mr. M. Garrett recommends that the
18 Company's Total Company Other Post-Retirement expenses be reduced by \$5,406,303
19 or \$2,117,108 for the Texas Retail jurisdiction.

20 Q. DID MR. M. GARRETT PROPERLY CALCULATE HIS ADJUSTMENT?

21 A. No, he did not. Mr. M. Garrett did not utilize the proper amount of the Company's
22 adjustment in his calculation. Mr. M. Garrett failed to recognize that the Company
23 filed a corrected Adjustment 3.11 work paper in response to CARD 4-41 (EXHIBIT

1 MAB-3R). If the proper Company adjustment, from the corrected Adjustment 3.11
2 work paper had been included on line 6 of MG 2.6, then Mr. M. Garrett would not have
3 an adjustment. See EXHIBIT MAB-4R, which is a corrected version of MG 2.6.
4 EXHIBIT MAB-4R shows that if line 6 is adjusted to the Company's actual adjustment,
5 then CARD's adjustment would be zero, not \$5,406,303 as proposed by Mr. M. Garrett.
6 The Commission should reject this proposed adjustment by Mr. M. Garrett.

7 Q. DID THE COMPANY MAKE AN ADJUSTMENT TO REDUCE PRODUCTION
8 EXPENSES REGARDING RETIRED GAS UNITS?

9 A. Yes, it did. On Adjustment A 3.7, the Company reduced total company O&M by
10 \$616,316 for retired gas plants Knox Lee, Lone Star and Lieberman. SWEPCO witness
11 Monte McMahon supported this adjustment and rebuts Mr. Norwood's
12 recommendation to reduce the O&M at these plants.

13 Q. WHAT IS TIEC WITNESS LACONTE'S RECOMMENDATION REGARDING
14 SWEPCO'S WIND PURCHASED POWER?

15 A. TIEC witness LaConte recommends that the Commission should impute a capacity
16 value to a portion of SWEPCO's wind purchases and move that portion from eligible
17 fuel expense into base rates.

18 Q. HOW HAVE SWEPCO'S WIND PURCHASES BEEN RECOVERED IN THE
19 PAST?

20 A. SWEPCO recovered the entire wind purchases as a component of eligible fuel expense
21 in the past. SWEPCO has never recovered any of its wind purchases in base rates in
22 the past.

1 Q. IF THE COMMISSION ORDERS A PORTION OF THESE WIND PURCHASES TO
2 BE INCLUDED IN BASE RATES, HOW WILL SWEPCO ALTER ITS FUEL
3 OVER/UNDER RECOVERY CALCULATIONS?

4 A. Each month SWEPCO will reduce eligible fuel expense by 1/12 of the amount moved
5 to base rates. This will avoid double recovery of these expenses.

6 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

7 A. Yes, it does.

Southwestern Electric Power Company
Intervenor & Staff Proposed Adjustments To SWEPCO Filing
Texas Jurisdictional Amounts (000)

Description	Company Rebuttal	Staff	CARD	OPUC	TIEC	Sierra Club	ETEC / NTEC	Witness
SWEPCO Texas Retail Revenue Deficiency - As filed	105,026							
Plus Updated Jurisdictional Cost of Service	(380)							
Less TCRF	(9,398)							
Less DCRF	(5,428)							
SWEPCO Revenue Deficiency	89,820	89,820	89,820	89,820	89,820	89,820	89,820	
Rate Base Adjustments-Rev Req. Level								
Dolet Hills Plant		(1,130)		(1,284)				Baird / Bnce
Dolet Hills Inventory				(904)				Leskowitz / Baird
Dolet Hills Oxbow		(479)		(525)				Baird / Bnce
Flint Creek & Welsh Test Year Capital						(323)		Becker / McMahon
Excess ADFIT							(2,607)	Bnce / Baird
ADFIT NOL	(13,235)							Hodgson / Spencer
Retiring Generating Units	(383)							McMahon
Coal & Lignite Inventories			(1,559)					Baird / Jeffnes
Capitalized Incentives	(1)	(1)						Baird
Cash Working Capital		108		102				Baird
Updated Dolet Hills (Excess Tax Off-Set)	(919)							
	(920)	(15,120)	(1,559)	(2,610)	-	(323)	(2,607)	
Return Adjustments - Rev Req. Level								
ROE (Note 1)		(10,142)	(13,499)	-	(12,003)			D'Ascendis
Change in Income Taxes Synch with ROE		(2,696)	(3,588)	-	(3,191)			D'Ascendis
Interest		(888)	-	-	-			Hawkins
	-	(13,726)	(17,087)	-	(15,194)	-	-	
Expenses - Rev Req. Level								
Short-Term Incentives	(21)	(21)	(1,170)	(928)				Carlin / Baird
Long-Term Incentives			(377)					Carlin / Baird
Self Insurance Expense			(1,690)	(137)	(400)			Wilson
Severance				(516)				Baird
Factoring				(372)				Baird
Flint Creek & Welsh Test Year Capital						(14,062)		Becker
Dolet Hills Equity				(523)				Baird
Dolet Hills Depreciation		(3,735)	(705)	(1,879)	(705)		(705)	Baird
Dolet Hills Ad Valorem Taxes		(1,045)		(1,047)				Baird / Bnce
Imputed Capacity Wind Purchases					2,288			Mertz / Baird
Ad Valorem Taxes		(459)						Baird
OPEB SFAS 106			(1,986)					Baird
Payroll		200	(550)	(1,446)				Baird
Payroll Taxes		(95)						Baird
AEPSC Payroll		(1,646)	(1,398)					Baird
Vegetation Management			(5,000)	(5,000)				Seidel
Depreciation Rates			(6,839)					Cash
Loss on Disposition of Plant	(184)	(184)						Baird
Cajun Contract Capacity			(1,550)					Mertz
Dolet Hills O&M		(5,970)	(3,834)	(4,765)				Baird / Bnce / McMahon
SERP	(34)	(34)						Baird
Behind the Meter Eastman Load					(5,700)			Ross / SPP
Gas Fired O&M			(404)					McMahon / Baird
Amortization Intangibles	(691)	(691)						Baird
Retired Plant Depreciation		(149)						Baird
Protected EADFIT Amortization		(2,219)						Hodgson
Amortization Retired Generating Units		1,222						Baird
Rate Case Expense	(17)	(17)						Ferry-Nelson
Texas Gross Margin				(627)				Baird
Executive Perquisites	(8)	(8)						Baird
Pension		(161)						Baird
Affiliate Carrying Charges (Net of Revenues)	(238)	(238)						Baird
Synchronize Factoring		(274)						Baird
Synchronize Revenue Related Taxes		(1,048)						Baird
Interest Customer Deposits	(366)	(366)						Baird
Updated Dolet Hills (Excess Tax Off-Set)	(2,141)							
	(3,700)	(16,941)	(25,503)	(17,240)	(4,516)	(14,062)	(705)	
Amortization of Unprotected Excess (Note 1)			(7,602)			-	(7,602)	Bnce / Baird
Dolet Hills Amortized over 4 Years		4,271						
Proposed Change to SWEPCO Filing per Intervenor Testimony	(4,620)	(41,515)	(51,752)	(19,850)	(19,710)	(14,385)	(10,914)	
Proposed Revenue Requirement Adjustment	85,200	48,305	38,068	69,970	70,110	75,435	78,906	
<p>Relate Back Date Remainder 6 months Note 1 Amortization of Excess Deferred Taxes</p> <p>(Rider) 4 (Base)</p> <p>Yr 1 \$20 1 & Yr 2 \$11 9 (Rider)</p> <p>1 Plus Interest (Rider)</p>								

Southwestern Electric Power Company
Dolet Hills Recommendation

										Depreciation				
Description	Utility Account	Month	Gross Plant	Accum Depr	Allocated CWIP	Gross Plant + Allocated CWIP	Depreciation Rates	July 2020 - Mar-21	Total Company Net Book	Texas Net Book	Total Company Depreciation	Texas Net Book		
Dolet Hills Plant	31100 - Structures, Improvemnt-Coal	06/2020	57,127,514	51,966,358	686,515	57,814,029	2 00%	867,210	4,293,946	1,586,330	149,800	83,360.48		
Dolet Hills Plant	31200 - Boiler Plant Equip-Coal	06/2020	211,216,144	139,942,797	2,538,234	213,754,378	2 36%	3,783,452	67,489,895	24,933,071	2,354,472	1,310,214.51		
Dolet Hills Plant	31400 - Turbogenerator Units-Coal	06/2020	39,735,805	33,443,811	477,515	40,213,320	2 13%	642,408	5,649,586	2,087,150	197,093	109,678 20		
Dolet Hills Plant	31500 - Accessory Elect Equip-Coal	06/2020	12,575,554	10,578,211	151,123	12,726,678	2 10%	200,445	1,796,898	663,836	62,687	34,884 07		
Dolet Hills Plant	31600 - Misc Pwr Plant Equip-Coal	06/2020	16,666,082	13,644,739	200,280	16,866,362	2 39%	302,330	2,719,013	1,004,496	94,856	52,785 55		
Dolet Hills Plant	31700 - ARO Steam Production Plant	06/2020	1,257,350	548,720	-	1,257,350	37 57%	354,315	354,315	130,896	12,361	6,878 49		
Dolet Hills Plant	31700 - ARO Steam Production Plant	06/2020	(26,693)	(1,937)	-	(26,693)	61 83%	(12,378)	(12,378)	(4,573)	(432)	(240 30)		
			338,551,758	250,122,699	4,053,667	342,605,425			82,291,276	30,401,206	2,870,838	1,597,561		
				CWIP	4,053,667									
									Account 1080161	29,763,258	10,995,563			
									Demo Estimate	10,740,383	3,967,864			
									Total Dolet NBV	122,794,917	45,364,633			
									Excess ADIT Off-Set	(111,311,565)	(38,974,389)			
									Remaining Value	11,483,351	6,390,244			
									4 Year Amortization	2,870,838	1,597,561			

SOUTHWESTERN ELECTRIC POWER COMPANY
 SFAS 106 Expense
 For the Test Year Ended March 31, 2020

Line No.		Amount
1	2020 Net SFAS 106 Benefit Costs - 2020 Actuarial Valuation Update	(7,753,163)
2		
3	Payroll O&M Percentage	69.71212%
4	Projected SFAS 106 Post Retirement Costs in O&M	(5,404,894)
5		
6		
7	Test Year SFAS 106 Expense	Acct 9260021 779,389
8		Acct 9260043 (7,135,166)
9	W/P A 3.12	Acct 9260053 (122,900)
10		Acct 9260060 533,310
11		(5,945,367)
	Adjustment	540,473

Justification for requested adjustment:

Adjust SFAS 106 expense to reflect 2019 actuarial study

Exhibit MG-2.6

SOUTHWESTERN ELECTRIC POWER COMPANY
 Cities Advocating Reasonable Deregulation OPEB Expense
 Docket No. 51415; Test Year End March 31, 2020

Line No.	Description	Amount
1	Net SFAS 106 Benefit Costs, 2020 Actuarial Valuation Update ^{1,2}	\$ (7,753,163)
2	Payroll O&M Percentage ²	<u>69.71212%</u>
3	Projected SFAS 106 Post Retirement Costs in O&M ²	\$ (5,404,894)
4	Less Test Year Expense ^{2,3}	<u>(5,945,367)</u>
5	Corrected Adjustment to Test Year Expense ²	\$ 540,473
6	Less SWEPCO original adjustment A 3.11	<u>540,473</u>
7	CARD Adjustment to SWEPCO Requested SFAS 106 Expense	\$ (0)
8	Composite Jurisdictional Factor ⁴	<u>39.16%</u>
9	Texas Retail Adjustment, Account 926	<u>\$ (0)</u>

Note 1 See G-2.2 Attachment 1 (PBOP Expense).xlsx, cell F14 and CARD_4-

Note 2 See CARD_4-41_Attachment_1_(WP_A-3.11).xlsx

Note 3 See WP A-3.11 (OPEBS SFAS 106).xlsx, cell F23.

Note 4 See A (Cost of Service).xlsx, tab A-1, cell D18.